

Message Text

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ACTION XMB-04

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 9053

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PASS EXIMBANK

E.O. 11652: N/A

TAGS: EIND, EINV, AR

SUBJ: BERNALESA EXIM BANK CREDITS

REF: BA 5123, SEP 29, 1971

1. TEXTILE FIRMS LA BERNALESA AND HILANDERIAS GABY SOLOMON WERE DECLARED BANKRUPT BY COMMERCIAL COURT IN EARLY OCTOBER, SHORTLY AFTER CREDITORS REJECTED REPAYMENT AGREEMENT PROPOSED BY FIRM'S OWNERS. COURT NAMED GOA TO ACT AS EXECUTOR. LA BERNALESA HAS BEEN IN FINANCIAL DIFFICULTIES SINCE MMID-60'S AND IS IN ARREARS IN REPAYMENT OF EXIM BANK CREDITS FOR PURCHASE OF WEAVING LOOMS. COURT DECISION HAS BEEN APPEALED BUT ACCORDING TO MARCELO SANTURIO, LOCAL LAWYER ACTING FOR EXIM BANK, APPEALS COURT LIKELY TO SUSTAIN ORIGINAL RULING.

2. PRIOR TO COURT DECISION, FIRMS HAD BEEN OPERATING UNDER FORM OF RECEIVERSHIP, ADMINISTERED JOINTLY BY A REPRESENTATIVE OF OWNERS, A GOA-APPOINTED ADMINISTRATOR, AND A COURT-APPOINTED REFEREE. AT TIME OF CREDITORS MEETING, REFEREE REPORTED BERNALESA'S ASSETS (BOOK VALUE) AT 169 MILLION VCSOS, LIABILITIES AT 73 MILLION, AND HILANDERIAS GABY SOLOMON ASSETS AT 115 MILLION, LIABILITIES AT 46 MILLION (10 PESOS EQUALS US 1.00

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AT OFFICIAL RATE).

3. COURT ACTION HAD VOCAL SUPPORT OF FIRMS LABOR FORCE, REPORTED IN PRESS AS 2500, AND OF GOA. WORKERS OFFICIALLY INFORMED OF BANKRUPTCY DECISION IN OCT 12 ASSEMBLY ATTENDED BY MIN OF SOCIAL WELFARE AND OF JUSTICE. JUSTICE MIN BENITEZ QUOTED AS SAYING THAT GOA ABOUT TO SIGN DECREE EXPROPRIATING COMPANIES AND THAT WORKERS WOULD BE GIVEN CO-MANAGEMENT ROLE. EXPROPRIATION APPARENTLY HAS NOT YET TAKEN PLACE, BUT MILLS CONTINUING OPERATIONS UNDER GOVERNMENT-APPOINTED MANAGEMENT.

4. LA BERNALESA PREVIOUSLY IN ARREARS ON TWO EXIM BANK CREDITS. WE UNDERSTAND FROM SANTURIO AND LOCAL BANK OF AMERICAN THAT ONE OF THESE, INVOLVING CROMPTON AND KNOWLES, HAS NOW BEEN REPAID AFTER MACHINERY IN QUESTION WAS SOLD TO ANOTHER FIRM. SANTURIO STATES REMAINING OUTSTANDING CREDIT, OF ABOUT \$300,00 INCLUDING INTEREST, HAD BEEN VERIFIED BY COURT IN EARLIER PROCEEDING AS VALID DOLLAR OBLIGATION OF FIRM PAYABLE AT EXCHANGE RATE IN EFFECT AT TIME OF PAYMENT. HE SAYS HE IS ACTING IN NAME OF US EXPORTER, DRAPER CORP., TO AVOID PUBLIC INVOLVEMENT OF EXIM BANK IN CASE. WHILE DRAPER-EXIM BANK CHATTEL MORTGAGES (PREDNDAS) ON MACHINERY COMPLETELY IN ORDER IN LEGAL SENSE, SANTURIO BELIEVES IT WOULD BE UNWISE AND PROBABLY IMPOSSIBLE TO EXECUTE THEM AND PHYSICALLY TAKE POSSESSION OF MACHINERY. (WORKERS, WITH IMPLICIT OR EVEN OPEN SUPPORT OF GOA, WOULD PROBABLY PREVENT BY FORCE THE REMOVAL OF THE MACHINERY). HE DOES NOT SEE RECENT DEVELOPMENTS AS WARRANTING ANY CHANGE IN POLICY FOLLOWED BY EXIM IN THIS CASE TO DATE. SANTURIO I PROCESS OF ADVISING EXIM DIRECTLY ALONG ABOVE LINES.

5. EMBASSY AGREES THAT NO ATTEMPT SHOULD BE MADE TO EXECUTIE MORTGAGES. WHILE WE UNABLE TO JUDGE LIKELIHOOD OF EXIM AND OTHER CREDITIROS OBTAINIGN FULL REPAYMENT, BEST POSSIBILITY SEEMS TO LIE WITH ALLOWING CONTINIUED OPERATION OF MILL. ANY ACTION THREATENING EMPLOYMENT CERTAIN TO DRAW STRONG ADVERSE REACTION FROM GOVERNMENT. LA BERNALESA CASE SEEMS TO RATE SPECIAL ATTENTION FROM PRESENT GOVERNMENT, WITH COURT DECISION AND RESULTING GOA ASSUMPTION OF MANAGEMENT RANKED ONPAR WITH MORE IMPORTANT GOVERNMENT ACTIONS AGAINST FOREIGN INTERESTS. SWIFT-DELTEC CASE, HOWEVER, GOVERNMENT WOULD APPEAR TO HAVE LIMITED OFFICIAL USE

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LITTLE INCENTIVE TO MOVE QUICKLY TOWARD FORMAL EXPROPRIATION OF FIRMS, SINCE ITS PRINCIPAL INTEREST, THAT OF MAINTAINING EMPLOYMENT, IS SERVED BY SATUS QUO.
HILL

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